

respective advisers, while varying within our group, are all well within the range of reasonableness, and that this result is brought about and assured by the peculiarly strong competitive situation of the no-load group, so that we believe the proposed legislative changes are unnecessary. These changes, on the other hand, would upset the basic assumptions of section 10(d) and would subject the no-load counseling firms to new, unwarranted costs and risks, thereby discouraging the formation of the no-load type of fund.

For all companies within our group the maximum advisory fee is 0.5 percent per annum, or half the statutory maximum of 1 percent, found in clause (6) of section 10(d). In the case of the largest fund in the group, the 0.5 percent is charged only on the first \$50 million of net assets, then 0.4 percent on the next \$100 million, then 0.35 percent on the balance. In other cases it is 0.5 percent on the first \$100 million or \$125 million and either 0.4 percent or 0.375 percent on the balance. In still other cases no breakpoint for reduction below 0.5 percent has yet been found appropriate.

Inasmuch as section 10(d) precludes the charging of a sales load or the payment of promotion expenses by qualifying investment companies, the management or advisory fees received by the counseling firms from their respective no-load funds must absorb some kinds of expenses, including promotion expenses, that the rest of the industry can take care of as a fund expense or through the load. For this and other reasons, the aggregate expense ratio is much more significant than the fee rate alone in comparing and evaluating costs of investment management. By the "aggregate expense ratio" I mean the management fee plus all other operating expenses paid by the fund itself, expressed as a percentage of invested dollars. This ratio varies somewhat from company to company, depending largely on size, but is at a modest level for all members of our group, averaging about 0.6 percent annually or \$60 per \$10,000 of net asset value.

We suggest that management fees and total expenses are at these moderate levels today—while showing the variations they do—because competition works with special efficiency in the case of no-load funds. The investor pays nothing to become a stockholder of a no-load fund, except possibly the price of a postage stamp or a telephone call, so that he can freely change advisers by selling one no-load fund and buying another. From the investor's viewpoint these no-load funds are simply a means of obtaining counseling services of a particular firm by buying shares of its fund; thus, any dissatisfaction with services performed in relation to management fees paid, or vice versa, can be readily taken care of by switching no-load funds, and therefore advisers, without incurring any penalty. Competition works freely, limited only by legal restrictions on advertising.

Stating this another way, it is of the essence of any mutual fund that its shares are freely redeemable by the stockholder. The no-load feature of our funds makes this unusual redemption feature a doubly powerful weapon in the hands of the investor, because it permits him to get the full benefit of competition by changing managements at his complete discretion.

Congress recognized all this in 1940 when it enacted section 10(d) of the present act. For the investment company industry generally,